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C O N F I D E N T I A L ASTANA 000906

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DEPT FOR SCA/CEN (M. O'MARA), SCA/RA (A. CUMMINGS)

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TAGS: [ENRG](#) [KZ](#) [PARM](#)

SUBJECT: KAZAKHSTANI PRIME MINISTER ON ENERGY, CTR VAT
ISSUES

REF: A. ASTANA 684

[1](#)B. ASTANA 848

[1](#)C. ASTANA 860

Classified By: Ambassador John Ordway, reasons 1.4 (B) and (D).

[1](#)1. (C) Summary: In a one-on-one meeting with the Ambassador April 9, Prime Minister Masimov attributed the delay in final agreement on the offshore "N" Block to a Kazakhstani government decision to link oil and gas tenders to economic diversification goals. He expressed confidence that the VAT issue threatening Cooperative Threat Reduction programs would be resolved before the USG's April 15 deadline. Masimov took the Ambassador's point regarding the need to ensure that the Tax Treaty is upheld, although he made no commitment regarding the specific case now in the courts. He briefed the Ambassador on a recent trip to Azerbaijan, which focused on the idea of a "transportation union" among Kazakhstan, Azerbaijan, Georgia, and Turkey. Masimov also shared his hope that Kazakhstan will be able to free electricity tariffs in 2008. Finally, the Prime Minister said that he plans to visit Washington in September and hopes for high-level USG meetings. End summary.

[1](#)2. (C) In an April 9 meeting in Astana, Prime Minister Karim Masimov told the Ambassador that the GOK decision to delay final agreement on the offshore "N" Block (Ref A) was the result of a "sea change" in the GOK's approach to oil and gas tenders. The GOK, he said, was determined to use oil and gas contracts as an engine for diversification by requiring companies to include proposals in their bids which would support the non-oil economy. The GOK had delayed the "N" decision, Masimov explained, while it brought in outside consultants and otherwise determined how, exactly, to use the tender process to further diversification. (Masimov implied that ExxonMobil's onshore proposal - Ref B - was subject to the same scrutiny.) Masimov added that, as part of its new strategy on oil and gas development, the GOK was no longer going to "acquiesce" to full reinjection of sour gas, insisting instead that more gas be used domestically (i.e., petrochemicals) as well as exported. We have identified the means to store the resulting sulfur, he added.

[1](#)3. (C) The Ambassador underscored the urgency of resolving the CTR VAT issue before the April 15 deadline, in order to avoid the suspension of all Cooperative Threat Reduction programs. Masimov indicated that he was actively engaged and thought that the issue would be resolved in time. He added that he had ordered the bureaucracy to push through the order creating an interagency tax exemption commission (Ref C) after the Ambassador's personal approach detailing the problem and consequences. The Ambassador stressed that the

tax authorities needed to take a constructive and flexible approach, not raise constant technical questions and objections.

¶4. (C) Masimov declined to comment on the Parker Drilling case. Ambassador Ordway underscored the importance of the issue, explaining that, at the end of the day, both tax authorities had to be convinced that the tax treaty was being upheld - something which was clearly at risk, from the USG side, in the Parker case. The Ambassador suggested to Masimov that, even if the Supreme Court issued a ruling against Parker, the tax authorities should be allowed to continue negotiating a settlement.

¶5. (C) Masimov commented that his recent trip to Azerbaijan had gone very well. He wished to let Washington know that Kazakhstan was "quietly" pursuing the idea of a four-country (Kazakhstan, Azerbaijan, Georgia, Turkey) "transportation union." Masimov also noted that his goal was to completely free electricity tariffs "next year."

¶6. (SBU) Masimov told the Ambassador that he plans to visit Washington in September for World Bank meetings, and hoped to meet with USG decisionmakers at the same time.
ORDWAY